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|---|-----------------|---------------------------------|
| TRANSMITTAL SLIP | | DATE 14 February 1984 |
| TO: Director of Personnel | | |
| ROOM NO. | BUILDING | |
| REMARKS: Bob, This looks like a thoughtful, constructive idea. It will probably get to you eventually but maybe your people could use a heads up. <div style="border: 1px solid black; width: 150px; height: 50px; margin: 10px auto;"></div> EA/DDCI | | |
| FROM: | | |
| ROOM NO. | BUILDING | EXTENSION |

FORM NO. 241
1 FEB 55REPLACES FORM 36-8
WHICH MAY BE USED.

(47)

25X1



Central Intelligence Agency
Office of the Deputy Director for Science & Technology

DDCI

on

John -

Nice
to see
someone
thinking ahead
in such
constructive
way

Attached is a rough draft
of a suggestion put forth
by (OF).
He is submitting it thru
formal channels but I
thought it is worth
passing on to you.

Evans

EXDIR has copy

Have always
figured this
stop this
benefit as
seen as
someone
cashed
in

25X1

Sometime in the near future, this Agency will be confronted with the payment of tremendously large amounts in the form of lump sum leave benefits, i.e., payment of annual leave accruals at the going hourly rate. Specifically, concern should be focused on the payment of lump sum leave benefits to personnel who accrue leave under the Senior Intelligence Service (SIS).

SIS personnel may accrue annual leave with no ceiling imposed, thereby "banking" large amounts of leave for payment at the maximum hourly rate. This is a well-deserved reward for senior managers, but one which eventually will come under such close scrutiny that when the final analysis is made it will be determined that: (1) the taxpayer can't afford the system, and; (2) the Agency can't adequately budget for these payments without causing Congressional concern.

Consider the fact that many SIS officers currently have annual leave balances in excess of 1,000 hours. The minimum hourly rate now stands near \$29.00; therefore, lump sum leave payments to each of these officers will be in excess of \$29,000. Ten years from now, there will be a much higher hourly rate, the accumulation of annual leave hours will approach 2,000 hours for many senior officers, and, the SIS population may be considerably higher assuming new SIS personnel will be younger and the attrition rate is less than

the entry rate. Suppose in 1994 that 40 SIS officers with individual leave balances of 2,000 hours will retire. At an hourly rate of \$40.00, the cost would be \$3.2 million, with each officer receiving \$80,000. The aggregate amount and the individual payments are significant enough to raise eyebrows in all sectors.

Rather than waiting for this system to self destruct, this paper presents a viable alternative that will: (1) save the Government money; (2) assist the Agency in the budgeting for lump-sum leave payments, and; (3) provide substantially greater benefits to the senior officer.

In lieu of allowing annual leave to accrue with no ceiling year after year, I propose that there be a ceiling of 360 hours, the same ceiling imposed on the officer who has served overseas. However, for any leave accrued in excess of 360 hours, payment would be made annually at the current hourly rate into a retirement account similar to that presently used by the Agency for the Voluntary Investment Plan. No withdrawals could be made until retirement, the funds would grow at a compounded rate, and withdrawals could be made over an extended time similar to that of a regular retirement annuity. In effect, the senior executive would have an additional retirement option which would be more valuable than the lump sum leave payment at less cost to the retiree (i.e., lower taxes) and to the Government.

The senior executive would benefit from three standpoints:

- (1) A lump sum payment would still be made for the 360 hours the officer had accrued.
- (2) The hourly rate for annual leave paid into a retirement/investment account would compound at an estimated annual rate of 10% whereas Federal pay increases have been less than 5%.
- (3) Taxes would be spread over the retirement years when total income theoretically is less and, therefore, tax rates are less.

Benefits to the Government are equally impressive:

- (1) There would be no lump sum leave payments in excess of 360 hours, thereby eliminating the largess and exposure of such payments.
- (2) Deposits made annually for leave in excess of 360 hours would be at the current hourly rate in lieu of the maximum hourly rate of an officer's career. Hourly rates would be relatively easy to approximate and, thus, relatively easy to include in budget cycles. Savings over a period of years would be significant.

The following charts represent hypothetical savings and gains to illustrate this proposal. The charts are based on one SIS officer.

SCENARIO

Officer Banks 104 Hours of Annual Leave
Each Year for Ten Years

| <u>Year</u> | <u>Leave Saved</u> | <u>5% Growth Hourly Rate</u> | <u>\$\$Deposited</u> | <u>10% Annual Compounding</u> |
|-------------------------------------|--------------------|----------------------------------|------------------------|-----------------------------------|
| 1 | 104 e | \$30.00 = | \$ 3,120 | \$ 3,120 |
| 2 | 104 e | 31.50 = | 3,276 | 6,708 |
| 3 | 104 e | 33.08 = | 3,440 | 10,819 |
| 4 | 104 e | 34.72 = | 3,611 | 15,512 |
| 5 | 104 e | 36.47 = | 3,793 | 20,856 |
| 6 | 104 e | 38.29 = | 3,982 | 26,924 |
| 7 | 104 e | 40.20 = | 4,181 | 33,797 |
| 8 | 104 e | 42.21 = | 4,390 | 41,567 |
| 9 | 104 e | 44.32 = | 4,609 | 50,333 |
| 10 | 104 e | 46.54 = | 4,840 | 60,206 |
| <hr/> 1,040 Hours | | <hr/> | <hr/> \$39,242 COST | <hr/> \$60,206 VALUE |
| <hr/> | | | | |
| 1,040 Hours e | | \$46.54 = | \$48,402 | \$48,402 |
| <hr/> | | | | |
| Government Savings Officer Gains | | | \$ 9,160 | \$11,804 |

SUMMARY

| | <u>CURRENT</u> | <u>PROPOSED</u> |
|----------------------------|----------------|-----------------|
| 360 hours @ \$46.54 | \$16,754 | \$16,754 |
| <u>Cost of 1,040 hours</u> | | |
| in 10 years | 48,402 | 39,242 |
| Government Savings | NA | 9,160 |
| Budget Exposure | 65,156 | 16,754 |
| Payment to Officer | 48,402 | 60,206 |
| Gain | 0 | 11,804 |
| Taxes on 360 hours | | |
| @ 50% - immediate | 8,377 | 8,377 |
| Taxes on balance | | |
| a) 48,402 - 50% | 24,201 | |
| b) 60,206 - 30% | | |
| | over life | 18,062 |
| Tax Total | \$32,578 | \$26,439 |
| Tax Savings | | \$ 6,139 |
| Annuity Gain | | <u>\$11,804</u> |
| Value to Officer | | \$17,943 |